



# NATURAL GAS UPDATE

January 2005

## Natural Gas Prices (\$/MMBtu)

Average Price	December 2004	November 2004	December 2003
PG&E, Malin	6.19	5.96	5.38
PG&E, SoCal Border	6.41	6.11	5.56
SoCalGas Average	6.40	6.16	5.58
Henry Hub, Louisiana	6.62	6.15	6.09

Source: Natural Gas Intelligence

## Inside the Natural Gas Update:

- California System Operations and Gas Storage Update ..... Pages 1-2
- U.S. Natural Gas Storage Update ..... Page 3
- California Natural Gas Production ..... Page 3
- Regulatory Summary ..... Page 4

This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

California Air Resources Board  
California Energy Commission  
California Public Utilities Commission  
California State Lands Commission  
Department of Conservation, Division of Oil, Gas, & Geothermal Resources  
Department of General Services  
Department of Water Resources

For Legislative inquiries, please contact :  
Cecile Martin 916-654-4942

For media inquiries, please contact:  
Claudia Chandler 916-654-4989

## Natural Gas Prices

During the last week of November 2004, natural gas spot market prices had risen sharply due, in part, to unexpectedly high natural gas storage withdrawals reported in the EIA's November 24, 2004, Weekly Natural Gas Storage Report. On December 2, 2004, the EIA revised this number down from 49 Bcf to only 17

Bcf drawn from storage during the week ending November 19, 2004. The EIA's revision, combined with moderate temperatures for most of the U.S. outside of the West, caused natural gas spot market prices to decrease during the first week of December 2004. While prices at the California border were declining during this period, cold weather on the West Coast kept California's spot prices above those at Henry Hub.

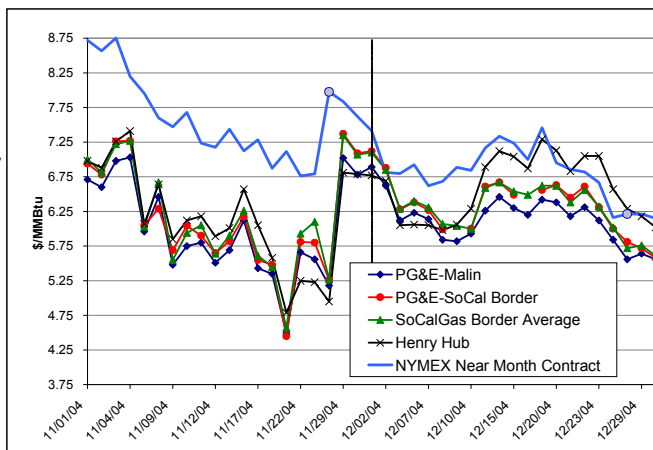


Figure 1: Daily Natural Gas Spot and NYMEX Prices

(Please see "Natural Gas Prices" on page 2)

## California System Operations and Gas Storage Update

During December 2004, natural gas demand in Southern California was slightly below average because of unseasonably warm temperatures during the middle of the month. SoCalGas' daily natural gas deliveries averaged 3.3 Bcf per day, compared to the December average of 3.4 Bcf per day. The highest deliveries occurred at the beginning of the month when a cold front hit the state. Natural gas receipts into the SoCalGas system were slightly above average (please see Figure 2). This is likely attributable to warmer weather during December that allowed SoCalGas to make injections into storage. Even with these storage injections, SoCal Gas made net withdrawals of 13.8 Bcf during December, pulling an average of 447 MMcf per day from storage.

Natural gas receipts and deliveries in Northern California were both above average during December 2004. PG&E's deliveries to customers averaged 3.2 Bcf per day, compared to the December average or slightly less than 3 Bcf per day. During the month, PG&E brought about 2.8 Bcf per day into its system and made net withdrawals from storage of 412 MMcf per day (please see Figure 3).

In total, California storage customers made net withdrawals of about 29 Bcf during December 2004, which is 1 Bcf higher than the five year average for the month. Despite the large withdrawals, California's natural gas storage

(Please see "System Operations" on page 2)

## Natural Gas Prices

(Continued from page 1)

Around the second week of December 2004, there was a transposition in the predominate temperature pattern that had characterized the 2004-2005 heating season. That is, areas outside of the Western U.S. experienced colder temperatures, while the West experienced warmer weather – at times, unseasonably warm, with parts of Southern California seeing temperatures in the 80s. The cold weather nationwide caused natural gas spot market prices to rise across the U.S., but the warm weather in California led to the largest gap between Henry Hub and California border prices since October 2004. Natural gas prices remained at higher levels through the third week of December 2004 owing to cooler weather in the eastern half of the country.

Natural gas spot prices dropped nationwide during the last week of the month, as the combination of moderating weather and the Christmas holiday depressed demand. The negative differential between

Henry Hub and the California border spot market prices persisted through the end of December. ■

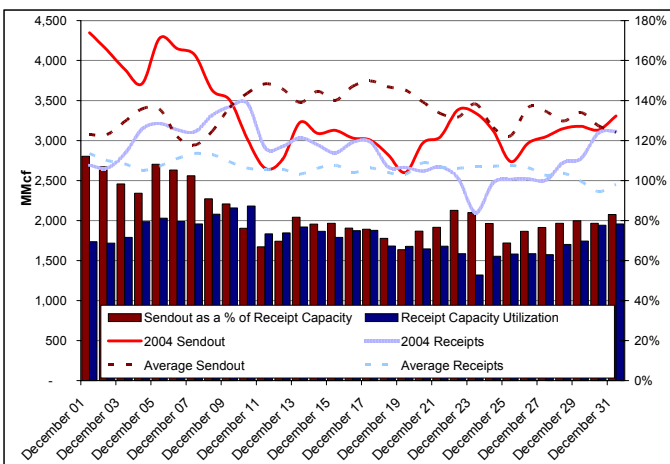


Figure 2. SoCalGas' Natural Gas Receipts and Deliveries, December 2004

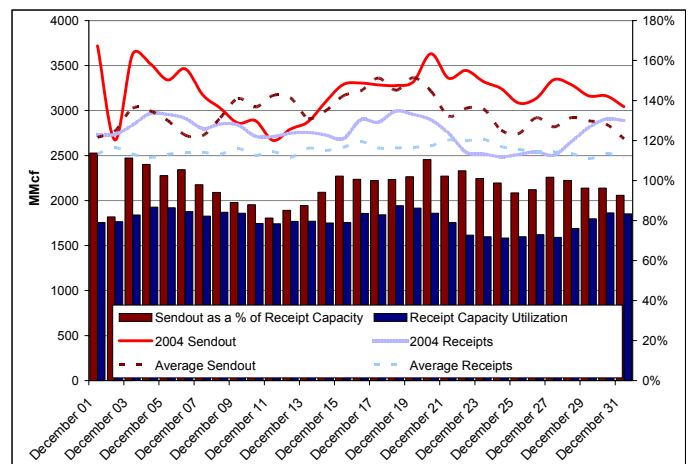


Figure 3. PG&E's Natural Gas Receipts and Deliveries, December 2004

## System Operations

(Continued from page 1)

facilities remain flush, ending December 2004 with 214 Bcf of natural gas in storage. This volume far exceeds the average volume for this time of year of 173 Bcf. ■

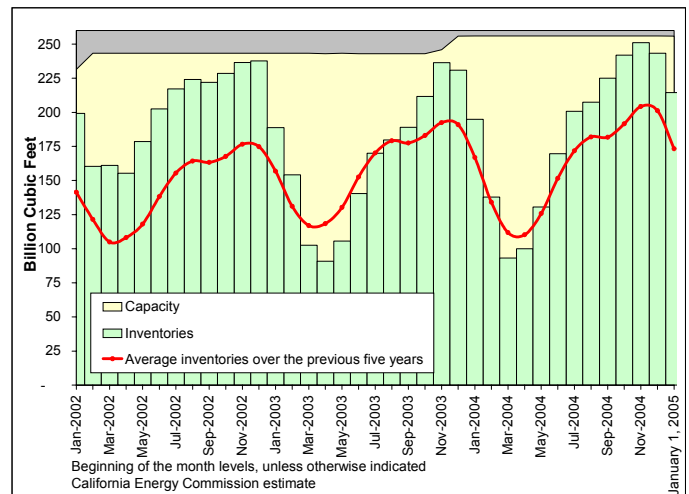


Figure 4. Monthly California Storage Inventories

### U.S. Natural Gas Storage

During December 2004, 601 Bcf of natural gas was withdrawn from storage facilities in the U.S., leaving inventories at 2,698 Bcf at month's end. This volume compares to 2,619 Bcf of natural gas in storage at the same time in 2003 and the five year average of 2,419. In recent history, 2001 was the only year in which the U.S. finished the year with greater inventories of stored natural gas. ■

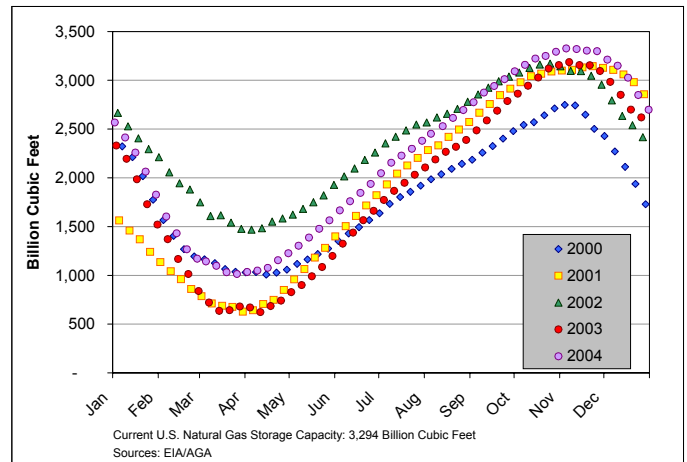


Figure 5. U.S. Natural Gas Storage Levels

### California Gas Drilling and Production

Statewide natural gas production remained flat during October 2004, with output 0.33 MMcf per day less than the previous month. The only area showing a modicum of consistency was offshore gas production in Federal waters, which declined for the fourth consecutive month.

During December 2004, six natural gas drilling permits were issued for District 6, bringing the year-ending total to 128 permits issued. This is the most drilling permits issued for District 6 since 2001. District 6 produces the largest volume of non-associated natural gas in California. The district encompasses all of Northern California north of Santa Cruz, Santa Clara, Stanislaus, Tuolumne, and Mono counties, as well as a small portion of Stanislaus County. ■

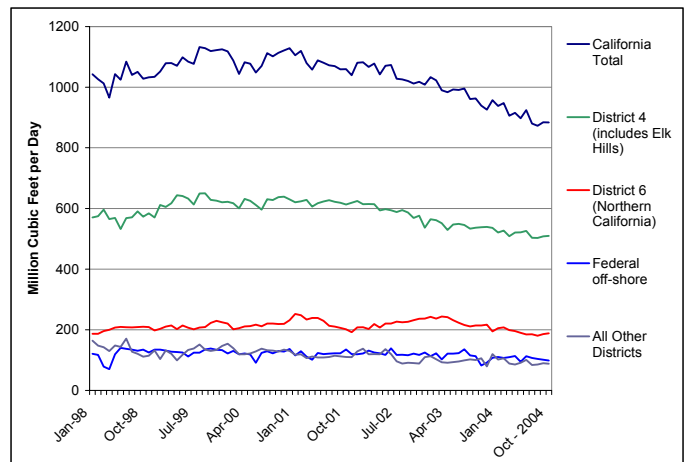


Figure 6. California Natural Gas Production, by District

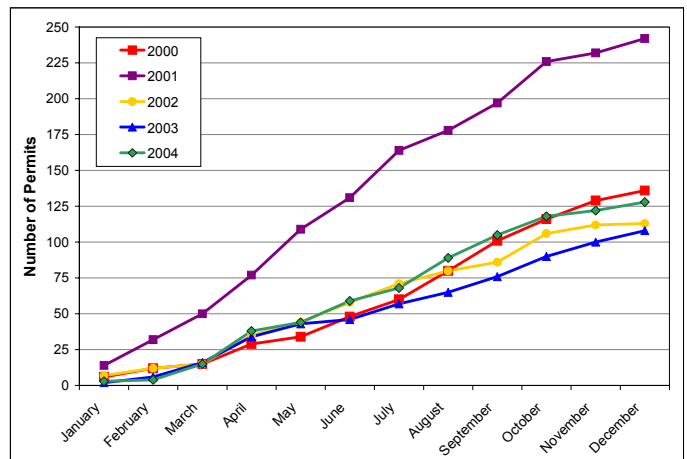


Figure 7. Drilling Permits Issued for District 6 (Northern California)

## Regulatory Summary

## California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status
<b>I0211040</b> <b>Investigation on Natural Gas Prices from December 2000 to May 2001</b>	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	On 12/16/04, CPUC rejected Administrative Law Judge's (ALJ) Proposed Decision (PD). (ALJ PD had found that SoCalGas took actions that increased gas prices in 2000-2001 in order to profit.)
<b>A.02-12-027/A.02-12-028</b> <b>SoCalGas and SDG&amp;E cost of service &amp; Performance Based Rates (PBR) proposal</b>	Establishes revenue requirement for SoCalGas and SDG&E, may establish PBR structure for SoCalGas and SDG&E	Phase 1 (cost of service) decision issued 12/2/04. ALJ PD in Phase 2 (PBR) to be issued.
<b>I0404024</b> <b>Order Instituting Investigation into the proposal of Sound Energy Solutions to construct and operate a liquefied natural gas terminal at the Port of Long Beach</b>	Orders Sound Energy Solutions (SES) to file an application for a certificate of public convenience and necessity if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.	Schedule delayed to allow review of EIR/EIS
<b>A.04-01-034 SoCalGas</b> <b>"Native Gas" Production and Revenue Sharing</b>	SoCalGas requests authority to produce natural gas in vicinity of storage fields, and share revenues from sales with customers	Partial settlement of issues reached with some parties. Case is submitted. ALJ PD to be issued. Additional settlement talks occurring. Status report issued October 29, 2004.
<b>A0403021</b> <b>2005 Gas Accord III</b>	PG&E's proposal for cost of service and rates for gas transmission and storage services and backbone level service and rates for 2005, as required by Commission decision D03-12-061 (Gas Accord II).	On 12/16/04, CPUC adopted all-party settlement in the proceeding that settles backbone transmission and storage rates and market structure for 2005-2007. Eliminates need for a 2006 Gas Accord filing.
<b>R0401025</b> <b>Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California</b>	Considers and rules on California natural gas utilities' proposals to ensuring reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 1 Decision adopted on September 2, 2004. Phase 2 scoping memo issued. Joint CPUC/CEC workshop on natural gas quality issues to be held in mid-February. CPUC staff working with utilities, ORA & TURN on interstate capacity portfolio. TURN & RACE file application for rehearing, RACE files additional application for rehearing of Phase 1 decision Oct. 12th.
<b>PG&amp;E BCAP A.04-07-044</b>	Allocates PG&E's gas distribution revenue requirement to customer classes and sets rate design	ORA testimony filed December 10, 2004 other parties' testimony due January 11, 2005.
<b>SoCalGas A.04-08-018 to establish regulatory authority over the access for natural gas provided by California gas producers</b>	Establish the terms and conditions under which natural gas produced by California gas producers will be granted access to the SoCalGas operating system	Application filed August 16, 2004. Protests filed September 20, 2004. Status reports issued Oct 29th and Dec. 9th by CIPA, WSPA, SoCalGas.
<b>A.04-09-009 Southwest</b> <b>purchase of Avista's natural gas properties</b>	Requests authority for Southwest Gas to purchase Avista's California natural gas properties and take over service to Avista's customers	Application filed September 2, 2004. One protest filed by ORA on Oct. 12th. Pre Hearing Conference scheduled for Jan. 14th
<b>A.04-12-004 SoCalGas/SDG&amp;E to establish firm tradeable rights, system integration and off-system deliveries</b>	Proposes a system of firm, tradeable receipt point capacity rights; integration of SoCalGas and SDG&E transmission rates; and authority to make deliveries of gas off the SoCalGas/SDG&E system	Application filed December 2, 2004. Protests due January 2005.